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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 001408

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SUBJECT: ENDING TRADE BANK OF IRAQ'S MONOPOLY OVER LETTERS
OF CREDIT

Classified By: Economic Minister-Counselor Daniel Weygandt for reasons
1.4 (b) and (d).

¶1. (C) Summary: In an April 23 meeting with the President of the Trade Bank of Iraq (TBI) Hussein Al-Uzry, Treasury Attache, CETI Coordinator and USAID Director, Deputy Prime Minister Barham Salih called for ending TBI's monopoly over GOI Letters of Credit (LC). "It's a bottleneck," DPM Salih said, citing it as an obstacle to effective budget execution. Hussein Al-Uzry countered that the LC process involved many steps and many other GOI institutions, which were also responsible for slowing execution. The TBI is involved both in routing 10% of government LC's to other banks and in processing the remaining LC's themselves. DPM Salih accepted USG offers for assistance in developing a 6 month plan to end the TBI monopoly. He requested that Hussein Al-Uzry attend the next Council of Ministers meeting on April 24 to explain the LC process and discuss plans for change. End summary.

TBI has an LC monopoly

¶2. (C) Since its creation in November 2003 with USG assistance the Trade Bank of Iraq has had a monopoly over GOI Letters of Credit. While there is no legal reason for this monopoly, Al-Uzri said that the major state owned banks would have had an attachment risk in processing international transactions, and do not have enough qualified staff to run a similar program. The private banks, he continued, are still too small, although since 2006 TBI has routed 10% of the GOI LC's to private banks. Credit Bank, ABC, Dar As Salam, Commercial Bank, Middle East Bank and Kurdistan Bank participate, as they have capitalization, corresponding banking, SWIFT capability, and reasonable LC departments. "They want more of the LC's," Al-Uzry said, "but they don't have enough capital to back them". Al-Uzry said that TBI had offered to set up an arrangement that would allow the private banks to process a greater percentage of the LC's, without giving them the cash money involved. Instead, they would work out an arrangement where JP Morgan would be responsible for the money - essentially including them in the JP Morgan consortium. Al-Uzry said that the private banks were not interested in increasing their business in this way.

Routing vs Processing

¶3. (C) Treasury Attache noted that TBI is involved with routing the LC's to other banks, a function that could be more logically located within the Ministry of Finance or the Central Bank. If that function were removed from TBI, the bank could focus on processing LC's, and compete against other banks for the LC business. Al-Uzri said that TBI had \$200 million in capital, and that privatization was its long-term plan. USAID director said that many of the private

banks have requested LC training, indicating interest in processing LC's.

A Transition Plan

¶4. (C) DPM Salih was adamant that TBI's monopoly needs to end, and intimated that the Council of Ministers may issue an order to that effect soon. "We do not want an economy with a government-sponsored monopoly," DPM Salih said, "and the ministers often complain about the LC process." Even if the reliance on TBI were not the only bottleneck in the budget execution process, DPM Salih said, it is one of the problems. He requested a 3 to 6 month transition plan to a more diversified approach, which should include input from the TBI and the Ministry of Finance.

Comment

¶5. (C) The complicated LC process is one of the challenges to accelerating budget execution in Iraq. While Al-Uzri is correct that TBI is not solely responsible for LC delays, the de facto monopoly held by TBI is a problem. This issue crystallized as a problem for the DPM when the Finance Ministry incorrectly argued to him last week that a new UNSCR is needed to remove the monopoly rights of the TBI. The DPM's insistence that the TBI president attend a Council of Ministers meeting to explain the LC process, and hopefully also direct the ministers to more information and training, is another positive indication of GOI commitment to improving budget execution.

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